14 January 1974

[redacted] STAT

Chief, Administrative Staff, FBIS

Dear [redacted] STAT

Subject: TCN Wage Scale
Reference: FBIS 1521 of 9 Jan 74

We agree that the recently strengthened dollar requires some rethinking of our proposed new TCN wage scale, and we had been doing just that, particularly in view of the demands for hefty local pay increases we'll be facing shortly. However, after weighing all the factors, we still feel that our proposed scale is both sound and necessary. Where we suggest backing off is from any commitment to automatically tying future TCN pay increases to Embassy increases for local employees.

To begin with, we believe there is a basic fallacy in relating wage increases to currency conversion rates. The increase in the strength of the dollar does not slow the increase in prices on the Japanese economy, which give every indication of continuing to escalate. And it's important to note the reverse side of this coin: When the dollar was twice devalued and the yen revalued, we did not give our TCN's a pay increase to compensate for their loss of purchasing power off base. Another example: the dollar salaries of our two Non-MLC Direct Hire Japanese employees [redacted] were converted STAT to yen at the rate of 300:1. The yen revaluation last February effectively gave them a pay raise in terms of purchasing dollars (which of course they do); now they're taking a cut. We can't adjust salaries to meet every fluctuation in conversion rates.

The reasons we gave in recommending a revised TCN scale haven't been changed by recent developments in the economic picture here. To recapitulate briefly:

1. We cannot compete for qualified linguists in the booming Asian markets unless we raise monitor salaries. Our actual and potential losses of good people and discouraging recruiting results have made this all too evident.

2. The proposed scale, with its greater spread between grades and steps, gives us a management tool for promoting incentive and rewarding outstanding contribution. The present scale, based on the GS scale, stifles initiative.

3. We need to quickly strike a better balance with locally hired Japanese employees, whose pay increases, beyond our control, are creating an inequitable relationship between nonprofessional and professional workers.

4. We must offset the steady deterioration in the quality of life on Okinawa, which is a semipermanent home for our TCN's. That these Orientals are increasingly restricted to life on a U.S. military base is a factor adversely affecting morale which we cannot discount. We should also not forget that many of our TCN's are supporting kids in school in the States, reverting money to their home countries (such as Australia), etc., and that one of the incentives is the ability to save money.

5. It is now certain that our TCN's must pay Japanese local and national taxes, and they may well be hit for lump sum payments retroactive to 15 May 1972. This in itself admittedly is not reason enough for granting a pay increase, but practically speaking we must be able to offer something to soften the blow. While we do not want to be in a position of reimbursing for taxes, the fact remains that most of the advantage from the recent yen devaluation (11.7%) will be wiped out by the retroactive and current taxes (between 5 and 10%).

Our recent investigations into the tax question now make us somewhat more hopeful that we can retain duty-free and other privileges for our TCN's for the immediate future, possibly without official sanction of the GOJ but at least with its sufferance. Thus there is less urgency than we originally thought in tying the TCN scale to future price increases in the local economy.

Therefore, we recommend that the revised scale be implemented as proposed and as soon as possible. But on its implementation we would make clear to our TCN's that future increases would not be tied automatically to Embassy or MLC raises. In fact, we would stay loose on this question, giving ourselves the option to continue matching Staff increases, as is now the case, or to recommend ad hoc increases as warranted. If the duty-free privileges (APO, PX, and Commissary) are withdrawn, as is likely to be the case in the long-term, then we would be in a position to adopt the Embassy increases or something similar, still taking off factors for housing, medical, and educational support. It might seem illogical to base our scale on the FSL scale, then not follow Embassy policy on increases. But let's just take the view that an Asian TCN wage schedule must be somehow related to Asian conditions, and any new scale must start off from some fixed point. The Tokyo Embassy's scale strikes us as a well-calculated one, but inasmuch as we are not under Embassy sponsorship it does not appear necessary to slavishly follow their lead on increases and allowances. Who can predict what the yen-dollar situation will be six months or a year from now? At least the new scale we have proposed gives us what we need immediately (a real dollar increase to soften the tax blows and meet the other points we have cited above), and a basis for long-term alterations to meet changing circumstances (i.e., loss of privileges) as Asian employees are gradually forced more and more onto the economy.

Our Mid-Year Review indicates a favorable budget situation. I therefore recommend early approval.

Sincerely,

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Chief, Okinawa Bureau

cc: Chief, Operations Group